

**Report on Forward Pricing  
Direct Labor Rates Effective  
July 6, 2002, Through June 30, 2003**

**April 2003**

**Reference Number: 2003-1C-085**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 30, 2003

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin  
Assistant Inspector General for Audit (Headquarters Operations  
and Exempt Organizations Programs)

SUBJECT: Report on Forward Pricing Direct Labor Rates Effective  
July 6, 2002, Through June 30, 2003 (Audit #200310002.027)

The Defense Contract Audit Agency (DCAA) examined the contractor's Civil Division direct labor forward pricing rate proposal dated August 21, 2002, and its revision to the proposal dated December 17, 2002. This proposal was for Fiscal Year (FY) 2003 and covered the period July 6, 2002, through June 30, 2003. The purpose of the examination was to determine the reasonableness of the proposed forward pricing direct labor rates and full time accounting factor.

The DCAA noted that its examination of the contractor's forward pricing direct labor rates and full time accounting factor (referred to as the FY 2003 direct labor rates) disclosed numerous audit exceptions. The DCAA considered the contractor's proposal acceptable for negotiation of fair and reasonable rates. However, the DCAA stated that the issues identified should be considered in the negotiation process.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

*The TIGTA seal was removed due to its size.*